2001 ANNUAL REPORT

CANADIAN SUPERIOR
ENERGY INC.

CORPORATE PROFILE

Canadian Superior Energy Inc. is a Calgary-based energy company engaged in the exploration and production of oil and natural gas in Canada. The Corporation plans to continue increasing its reserves and production base in Canada through exploration and strategic acquisitions. In Atlantic Canada, the Corporation's primary area of focus is on its 100% owned exploration blocks on the Scotian Shelf, offshore Nova Scotia, where it is one of the largest offshore acreage holders. In Western Canada, the Corporation is currently focusing on oil and gas prospects in Alberta, Saskatchewan and British Columbia.

The common shares of Canadian Superior trade on The Toronto Stock Exchange under the symbol "SNG". As at March 31, 2002, the Corporation had 50.7 million common shares issued and outstanding.

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders will be held on May 24, 2002 at 10:30 a.m., in the Viking Room, Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta T2P 0L5. All shareholders are encouraged to attend. Those unable to do so are requested to sign and return the proxy form mailed with this Report.

ABBREVIATIONS

mcf .... thousand cubic feet
mbbls .... thousands of barrels
mmcf .... million cubic feet
mmcfe .... million cubic feet equivalent
bcf .... billion cubic feet
(1 bbl – 10 mcf)

bcfe .... billion cubic feet equivalent
bbl .... barrel
boe .... barrels of oil equivalent
NGLs .... natural gas liquids
Tcf .... trillion cubic feet

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2001 HIGHLIGHTS

December 31	2001	2000
Financial ($000's except per share amounts)		
Gross Production Revenue	$4,945	$4,869
Cash Flow from Operations	$1,729	$2,215
Per Share	$0.04	$0.09
Income (Loss) from Operations	$(322)	$1,599
Net Income	$8,109	$1,181
Per Share	$0.20	$0.05
Capital Expenditures	$27,660	$7,017
Working Capital	$1,310	$8,897
Term Deposits	$21,115	nil
Bank Debt	nil	nil
Shares Outstanding at Year-end*	50,419,708	35,832,834
Net Asset Value Per Share (Est.)	$3.20	$2.39
Operating		
Average Production		
Natural Gas (mcf/d)	2,491	2,906
Oil & NGLs (bbls/d)	18.5	9.2
Natural Gas Equivalent (mcfe)	2,676	2,998
Average Selling Price		
Oil & NGLs ($/bbl)	$36.03	$46.86
Natural Gas ($/mcf)	$5.23	$4.40
Reserves (Gross)		
Proven		
Natural Gas (mmcf)	28,586	27,806
Oil & NGLs (mbbls)	351	92
Millions of cubic feet equivalent	32,096	28,726
Proven and Risked Probables		
Natural Gas (mmcf)	41,452	30,342
Oil & NGLs (mbbls)	1,636	361
Millions of cubic feet equivalent	57,812	33,952
Undeveloped Land (acres)		
Gross	985,058	191,288
Net	982,576	143,835
Wells Drilled		
Gross	17.0	3.0
Net	16.1	2.1

*Including Special Warrants

MESSAGE TO SHAREHOLDERS

CANADIAN SUPERIOR ENERGY INC.

2001 was a year of substantial achievement for Canadian Superior. The strategic changes implemented in 2000 have allowed us to remain firmly focused on achieving solid sustainable growth for our shareholders. This focus was particularly important during periods in 2001 when our efforts were directed at aggressively targeting new growth opportunities. We are determined to remain well capitalized and focused on what must be achieved to continue to strengthen the basic foundation blocks required for sustainable long-term growth.

During the last year, we initiated an aggressive Western Canadian drilling and facilities construction program, and we continued to strengthen our position as one of the largest landholders in the evolving world-class Scotian Shelf gas plays offshore Nova Scotia.

INCREASING PRODUCTION
AND
RESERVES

In Western Canada, we continued to increase our undeveloped acreage holdings to a total of 48,776 net acres and we used the drill bit to substantially increase Total Proved and Risked Probable Reserves to 57.8 bcfe. In addition, we focused on divesting non-core and mature assets at high prices in order to re-deploy capital to high impact projects.

In the Scotian Shelf area offshore Nova Scotia, we now hold a 100% working interest in four world-class exploration licenses covering approximately 933,800 acres. Canadian Superior is now the sixth largest public company holder of offshore Nova Scotia acreage. On our Scotian Shelf lands, six significant structures have been identified based on seismic conducted to date, including the reef structure being targeted by our first planned high impact offshore exploration well on the "Marquis Project". This reef structure is analogous to, and directly on trend with, the PanCanadian Panuke discovery that is expected to produce at a rate of 400 mmcf/d.

Extensive detailed information documents have been completed and filed to support the drilling permit application for our first "Marquis Project" exploration well. We are well on the way to satisfying all permit approval requirements. We therefore expect approval notification to be obtained in the next few weeks to authorize commencement of drilling operations. We are in the final stages of securing a drilling rig and we have awarded long lead time critical path contracts required for commencement of drilling operations, all at very attractive rates. We currently expect to spud our first exploration well, the "Marquis Project" L-35 well, before June 30th of this year. This well has a projected cost of $32 million to drill, case and test with a minimum target depth of 4,300 metres (14,108 feet).

CORPORATE ACCOMPLISHMENTS

East Coast (Offshore Nova Scotia)

- June, 2001: Completed an 1,800 kilometre offshore high resolution seismic survey on time and under budget: 1,300 kilometres of seismic over the "Marquis Project" lands to support selection of optimal drilling locations; and, 500 kilometres of seismic on other East Coast acreage which allowed us to identify and analyse additional desirable exploration areas, including the new "Mariner" prospect acreage.
- August, 2001: Opened a new operations office in Halifax, Nova Scotia and staffed it with experienced operational and technical staff.
- November, 2001: Using information derived from our recently acquired 50,000 kilometres of seismic data and from our high resolution offshore seismic program, we successfully acquired two additional large offshore drilling licenses covering approximately 822,000 acres. We now refer to these two blocks as our "Mariner" and "Mayflower" prospects.
- November, 2001: Selection of our first drilling location was announced for the Abenaki reef structure on the "Marquis Project" located approximately 20 kilometres northwest of Sable Island, offshore Nova Scotia.
- December, 2001: Conducted a detailed marine well site survey for the Marquis L-35 well, the first "Marquis Project well".
- As at January 1, 2002, McDaniel & Associates Consultants Ltd. ("McDaniel & Associates") appraised Canadian Superior's undeveloped Nova Scotia Offshore holdings at $85 million ($1.69 per share).

Western Canada (Alberta, British Columbia & Saskatchewan)

- Effective May 1, 2001, divested a 10% non-operated interest in the Waterton area under peak market conditions for approximately $18 million. Net interest production was 1.7 mmcf/d at the time of sale. This sale generated a gain of $13.2 million in 2001.
- Successfully re-invested asset disposition proceeds in our aggressive Western Canadian program at a time of depressed services industry costs that were very favourable to us.
- Planned for and executed an aggressive Western Canada drilling and recompletion program resulting in the addition of significant incremental oil and gas reserves and production. At March 31, 2002 production was increased to approximately 6.5 mmcf/d (up 86% from December 31, 2001 production of 3.5 mmcf/d) and is expected to increase significantly through the balance of the year as a result of successes in our aggressive Western Canada drilling program.
- Expanded our inventory of high impact Foothills and Plains exploration plays based on the extensive use of our rights to over 340,000 kilometres of seismic data and related information. This evaluation positioned us to initiate exploration drilling activities in five high impact core areas in Alberta and British Columbia during the fourth quarter of 2001 and the first quarter of 2002. This will provide significant further reserves and production growth from drilling for the balance of 2002.

Corporate

- We implemented a policy of divesting non-core and mature assets at high prices in order to re-deploy capital to high impact projects. The disposition of our Waterton interests under peak market conditions generated a gain of $13.2 million in 2001.
- Using the drill bit, we achieved substantial growth in reserves and production in spite of the disposition of 16.42 bcf of Total Proved and Probable gas reserves.
- On a Total Proven and Risked Probable Reserves basis, gas reserves increased by 36.6% to 41.5 bcf and oil and NGLs reserves increased by 353% to 1,636,000 bbls. On a Total Proven Reserves basis, gas reserves increased by 2.8% to 28.6 bcf and oil and NGLs reserves increased by 280% to 351,000 bbls.
- Adopted a Shareholders' Rights Plan in 2001 to encourage the fair treatment of all shareholders in the event of any take-over offer that might occur as a result of the significant value generated for shareholders by the Corporation's high impact exploration activities.
- In June, 2001, we expanded our Board of Directors to include two experienced independent Board members: Mr. Dale Blue and Mr. J. Ronald Woods.
- On August 2, 2001, Common Shares of Canadian Superior were listed on The Toronto Stock Exchange.
- We completed a strategic financing of $16.54 million in Special Warrant offerings of Common Shares and Flow-through Common Shares during the fourth quarter of 2001. This ensures that we maintain a strong balance sheet to support our aggressive exploration activities.

Achieving Sustainable Growth

During 2001, Canadian Superior invested approximately $27.6 million in capital projects, including $6.7 million in land acquisitions. Our strategic initiatives, conducted in a favourable cost environment, have resulted in a significant increase in both our assets and our opportunities during 2001. We will continue to:

a) Pursue balanced capital programs focused on drilling of medium depth and deeper natural gas plays and production optimization;
b) Pursue high impact exploration plays that offer maximum returns for shareholders;
c) Allocate capital to projects and activities that provide potential for strong rates of return;
d) Leverage our reach in high risk, high impact exploration plays through industry participation;
e) Increase efficiencies and reduce operating costs;
f) Divest non-core and mature assets when commodity prices are high in order to re-deploy capital and thereby minimize potential shareholder dilution associated with equity funding of capital programs; and
g) Pursue property acquisitions to strengthen existing core areas and establish new core growth areas.

In 2001, our management team engaged in efforts to acquire assets and companies which met our acquisitions

criteria. In January 2001, we spearheaded a 50/50 funded joint bid with an industry partner for the acquisition of a company with significant Canadian East Coast assets, exceeding $400 million in value. In late April 2001, we initiated a $700 million merger proposal with a mid-sized Canadian exploration and production company. Although unsuccessful in our efforts, the first transaction provided us with significant insights into the Nova Scotia offshore basin. We are now positioned as the sixth largest public company acreage holder in this world-class area. In the second transaction our merger proposal was withdrawn, after detailed review during the course of our bid, when our Board of Directors determined that a merger would not be in the best interest of our own shareholders.

We continue to believe that industry consolidations, combined with the current environment of uncertain commodity prices, will provide us with a significant number of attractive opportunities. The combination of our strong balance sheet, our disciplined analytical assessment methods and our strong management team, allows us to be confident that we will continue to deliver solid sustainable returns and value to our shareholders. Our objective in 2002 is to emerge as a rapidly growing intermediate oil and gas company. We intend to spud our first well on the "Marquis Project" late in the second quarter and steadily increase our Western Canadian production throughout this year.

Overview

Our goals at Canadian Superior remain simple and consistent. Our objective is to continue to deliver superior returns for our shareholders. During the last twelve months, our December 31 Net Asset Value has increased 34% from $2.39 per share to $3.20 per share. After year end, we continued to add reserves that are not reflected in the December 31, 2001 Net Asset Value calculation.

Our common shares traded actively during 2001 and closed at $1.57 on December 31, 2001, up 74.4% from the December 31, 2000 closing price of $0.90. Our stock has continued to trade actively and to perform strongly, closing at $2.94 on April 19, 2002, up 87.3% since the start of this year.

In order to remain attractive as a corporation capable of delivering sustainable growth to our shareholders, we intend to maintain a strong balance sheet to ensure that we are properly positioned to aggressively pursue both internally generated drilling opportunities and acquisitions opportunities. On the dispositions front we intend to continue divesting non-core and mature assets when commodity prices are high in order to re-deploy capital to higher impact projects and to minimize potential shareholder dilution associated with equity funding of capital programs. On the acquisitions front, we intend to continue targeting assets that are viewed as under managed or under exploited.

Respectfully submitted on behalf of the Management, Staff and Board of Directors of Canadian Superior.

Greg Noval

President & CEO

April 19, 2002

OPERATIONS REVIEW

PRINCIPAL OIL AND GAS PROPERTIES

Western Canada

Canadian Superior has now established several focused core areas in: (i) Alberta in the Venus area of Northwest Alberta as well as in the Windfall, Boundary Lake and Bison Lake areas; and (ii) Northeastern British Columbia at Parkland, Umbach and Altares, all in the Peace River Arch area. The Corporation operates all of these core areas. These core areas vary significantly on a risk/reward, cost, reserves and production potential basis, but all contain multi-zone play types with a strong bias to natural gas. 2001 was a successful year for Canadian Superior. We continued to increase our undeveloped acreage holdings to 48,776 net acres and we used the drill bit to substantially increase Total Proved and Risked Probable Reserves to 57.8 bcfe. In addition, we focused on divesting non-core and mature assets at high prices in order to re-deploy capital to high impact projects. As at December 31, 2001, the value of our Western Canadian assets was approximately $57.2 million.

ATTRACTIVE INVENTORY
OF
HIGH IMPACT PROJECTS

Alberta

Venus Area, Alberta (100% WI & Farm-in, Operated)

The Corporation holds approximately 12,160 acres of 100% working interest lands in the Venus area of Alberta, including 9,600 acres acquired in 2001 at Crown land sales. During the first three months of 2002, three exploration wells have been drilled and completed. Initial production of up to 10 mmcf/d is expected from this property commencing before the end of the second quarter of this year. Pipeline construction and tie-ins are in progress and further production increases from this area are expected to occur during the second half of this year upon completion of facilities de-bottlenecking and development drilling. The Corporation is currently planning a multi-well program in this area. The newly discovered Venus reserves have not been included in the Corporation's year end reserves or in the year end Net Asset Value calculation.

Windfall, Alberta (100% WI, Operated)

During 2001, Canadian Superior acquired approximately 2,560 acres in the Windfall area south of Edson. An additional 1,280 acres was acquired in Crown land sales early in 2002. During the fourth quarter of 2001, one exploration well was drilled. This well was placed on production after the end of the first quarter of 2002 at 1.5 mmcf/d (estimated reserves are 6.0 Bcf from the lower zone of this well alone). Two further wells were drilled and completed in the second quarter of this year and are currently being tied-in. This is expected to add incremental production of 2.5 mmcf/d by the end of April of this year. Several development wells are planned for the Windfall area during the balance of 2002.

Boundary Lake (Bear Canyon and Balsam Areas) Alberta (50% WI & Farm-in, Operated)

In the Boundary Lake (Bear Canyon) area in Northwest Alberta, Canadian Superior purchased a 50% working interest in 320 acres and has earned a 50% interest in six sections (3,840 acres) pursuant to the terms of a farm-in agreement with a major industry operator. The first well drilled has been completed and AOF tested at 12 mmcf/d. A second well spudded in January 2002 has also been completed and AOF tested at 12 mmcf/d. A third gas well has been drilled and completed and is being production tested for gas. Expected aggregate production from these wells in the Boundary Lake area is estimated at 4.0 mmcf/d of gas. The first two wells are currently on production. Three additional wells are expected to be drilled during the summer of this year.

Bison Lake, (100% WI, Operated)

In 2001 and the first quarter of 2002, Canadian Superior expanded its Bison Lake holdings in north Central Alberta and continued development of a successful multi-zone shallow gas project. The Bison Lake project is operated by Canadian Superior. The Corporation holds a 100% working interest in 25,600 acres and has farmed-in on an additional 640 acres.

Bison Lake activities commenced in 2000 with the construction of road access, successful completion of three shallow Cretaceous Bluesky/Gething gas wells and the drilling and completion of two successful exploration gas wells. Three of the recompleted wells and one of the exploration wells were placed on production in 2001 at plant restricted rates of 1.0 mmcf/d. Bison Lake is a winter access only area.

From late 2001 to date, two wells have been successfully re-entered and eleven additional wells have been drilled – six exploration wells and five development wells. This drilling and re-entry program resulted in nine gas wells, three dry holes and one suspended well. The second successful exploration well drilled in 2000, along with six of the eleven wells drilled over the last winter, were tied in early in March of this year. Aggregate production from Bison Lake is expected to reach approximately 4.0 mmcf/d during the second quarter. An additional 1.5 mmcf/d can be added when plant capacity is available. Tie-in was affected to the Nova pipeline after 20 kilometres of tie-lines were constructed, along with compression facilities and a meter station.

The Corporation has identified ten multi-zone locations for drilling after freeze up later this year. Additional wells may be drilled to examine Wabamun production potential on the Corporation's lands. Production testing of that formation on one of the wells drilled last winter indicates significant Wabamun reserves and potential for additional development locations.

Twinning/Rowley Area, Alberta (66.67% WI, Operated)

During 2001, three wells were successfully drilled, completed and placed on stream. Current holdings cover 5,104 gross acres (3,829 net). These wells averaged 0.9 mmcf/d net to Canadian Superior during the first quarter of 2002.

British Columbia

Parkland (Farmington), British Columbia (100% WI, Operated)

This new exploration area is located in Northeast British Columbia approximately 20 miles Southwest of Dawson Creek. Current holdings cover 5,120 acres.

To date, one deep exploration well has been drilled and cased on this 5,120-acre prospect (100% working interest). This first deep well spudded in December 2001 and is expected to be completed and production tested after break-up. Further development drilling is planned for this high impact area.

Umbach, British Columbia (62.5% WI, Operated)

At Umbach, north of Fort St. John, Canadian Superior drilled a successful Cadomin well (operated by Canadian Superior; 62.5% working interest). The well was completion tested at 1.5 to 2.3 mmcf/d and a compressor has been added. Pipeline construction was recently completed and the well was placed on production in late November, 2001. An offset well reached its target depth in the Halfway formation, early in 2002, with Cadomin and Gething potential. Testing of this second well is currently underway and at least one deep exploration well is planned for this area later this year. The Corporation has approximately 1,350 gross acres (approximately 850 net acres) in this area. Further land acquisitions are expected in this exploration area.

CAPTURING THE WAVE OF OPPORTUNITY

Altares, British Columbia (50% WI, Operated)

Altares is one of Canadian Superior's new Western Canadian prospects located west of Fort St. John, British Columbia. During the third quarter of 2001, Canadian Superior acquired 3,200 gross acres (1,600 net based on 50% working interest) on this foothills over-thrust prospect. Canadian Superior is operator of the prospect. A well is planned for drilling in mid to late 2002 targeting the Mississippian formation on this high impact prospect.

Saskatchewan

Saskatchewan (100% WI, Operated)

In Saskatchewan, Canadian Superior holds interests in 5,209 gross acres (2,346 net). Gas production is derived from wells in the Bronson Lake, Frenchman Butte and Makwa regions. Gas production from the Saskatchewan properties averaged 1.4 mmcf/d in 2001. Saskatchewan is not a high impact activity area for the Corporation. The Corporation did not pursue any material programs on its Saskatchewan lands in 2001, but will evaluate additional drilling opportunities on its lands during 2002 due to the attractiveness of low development and operating costs.

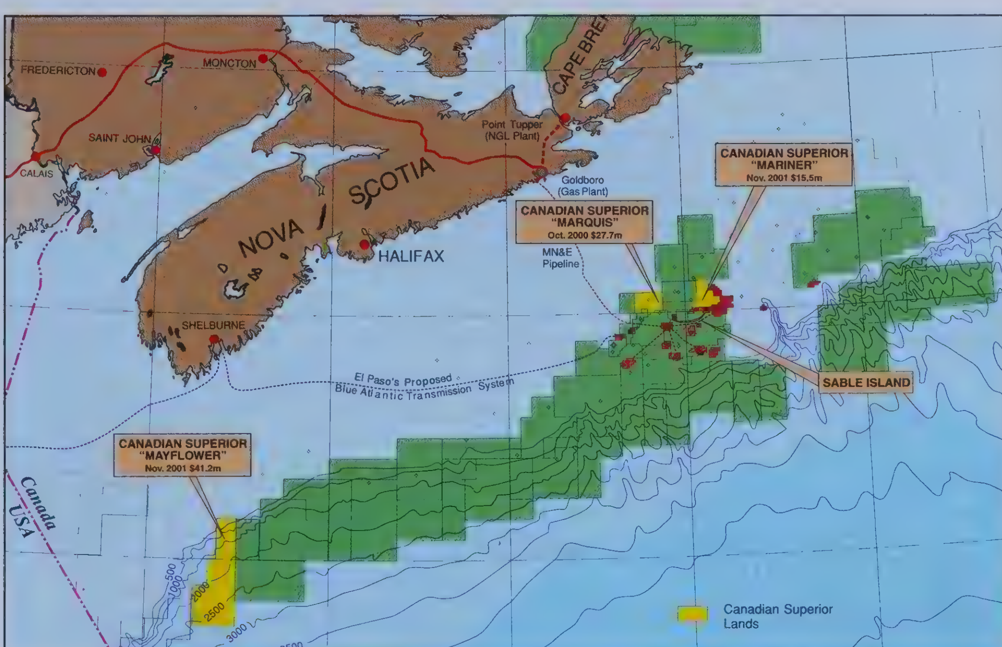
Offshore Nova Scotia

During the past year, considerable time and effort was spent positioning Canadian Superior to acquire additional exploration acreage. Using information derived from our recently acquired 50,000 kilometres of seismic data and from our high-resolution offshore seismic program, we successfully acquired two additional large offshore exploration licenses in November 2001. These licenses are now identified as the "Mariner" and "Mayflower" prospect areas. These license awards added approximately 822,000 acres to Canadian Superior's existing 112,000 acre "Marquis Project" holdings.

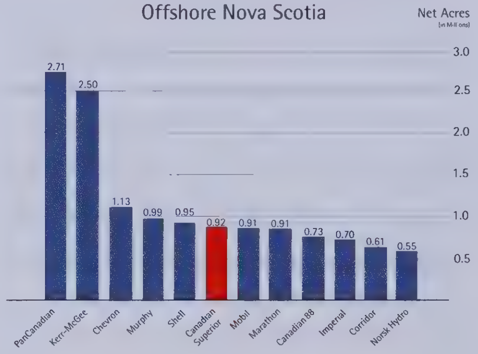
Canadian Superior now holds a 100% interest in approximately 933,800 acres Offshore Nova Scotia. This acreage has been divided into three project areas:

- the 112,000 acre "Marquis Project" area;
- the 101,800 acre "Mariner" prospect area; and
- the 720,000 acre "Mayflower" prospect area.

The five year work expenditures associated with our license area bids aggregate to $84.46 million. Refundable cash deposits, equal to 25% of our aggregate license Work Expenditure Bids (approximately $21.12 million), have been pledged by the Corporation to the Canada-Nova Scotia



Ranking of Public Company Acreage Holders Offshore Nova Scotia



Offshore Petroleum Board. These funds will be refunded, as license activity expenditures are incurred, on the basis of $0.25 per $1.00 of approved allowable expenditures.

As a result of these strategic acquisitions, Canadian Superior has emerged as the sixth largest public company acreage holder in this world-class area *(See "Ranking of Public Company Acreage Holders Offshore Nova Scotia" above).* Our undeveloped lands were recently appraised by McDaniel & Associates at $85 million ($1.69 per share).

PLANNING FOR FIRST OFFSHORE WELL

Marquis Project (100%WI, Operated)

The "Marquis Project" is a 100% owned drill ready project located in shallow water depths (180 feet) in close proximity to the existing Sable Island Offshore Energy Project producing infrastructure. The "Marquis Project" covers two license areas with an aggregate of approximately 112,000 contiguous acres. Potential exists for a discovery of up to 2.4 Tcf of recoverable gas reserves. The primary exploration target is a karsted limestone reef bank reservoir analogous to PanCanadian's 1999 Deep Panuke discovery which is expected to commence production in 2005 at 400 mmcf/d. The "Marquis Project" licenses were acquired for Work Expenditure Bids aggregating to $27.7 million.

Selection of the initial well location for the "Marquis Project" was supported by detailed examination of over 1,300 kilometres of high resolution seismic data acquired over the "Marquis Project" acreage in 2001. Detailed plans and studies have been submitted to the Canada-Nova Scotia Offshore Petroleum Board ("CNSOPB"), including Environmental Assessments for the project, Nova Scotia Benefits Plans, and plans for Health, Safety and Environment Management Systems. We are well on the way to satisfying all permit approval requirements and we are progressing rapidly with the tendering process for 54 contracts for services and supplies. Tenders have been directed to Nova Scotian, Canadian and international services vendors.

Formal approval notification from CNSOPB is expected to be obtained in the next few weeks to permit commencement of drilling operations. We are in the first stages of securing a drilling rig and we have begun to award long lead-time critical path contracts at very attractive rates. We currently expect to spud our first high impact exploration well, the "Marquis Project" L-35 well, before June 30 of this year. The minimum target depth is

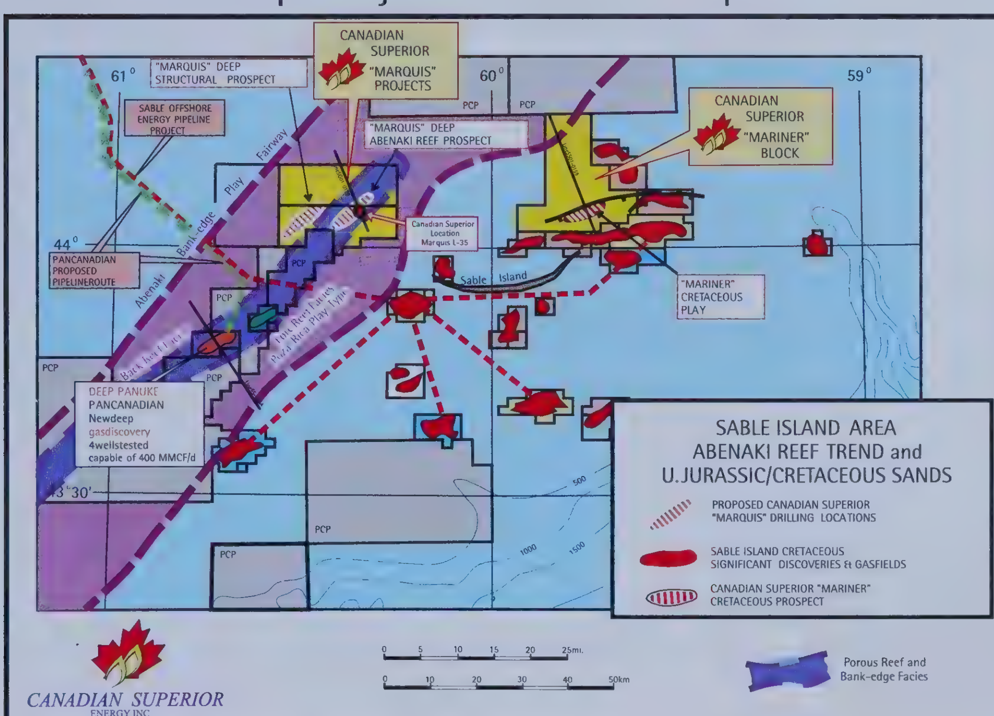
approximately 4,300 metres (14,108 feet). The estimated drilling budget is approximately $32 million to drill, case and test this well to the target depth.

Mariner and Mayflower Prospects (100%WI, Operated)

On November 1, 2001, Canadian Superior was advised by the Canada-Nova Scotia Offshore Petroleum Board that it was the successful bidder for two new offshore exploration licenses totalling approximately 822,000 acres offshore Nova Scotia at the Canada-Nova Scotia Offshore Petroleum Board's November 1, 2001 Call for Bids (the "Land Sale").

The two exploration licenses, now comprising Canadian Superior's "Mayflower" and "Mariner" prospects, were posted for sale and acquired based on detailed geological

Canadian Superior Energy Inc.
"Marquis Project" and "Mariner" Prospect



and seismic assessments conducted by Canadian Superior on the licenses.

The Corporation's "Mayflower" prospect (Block #1 at the Land Sale) is located in the Western portion of the Scotia Basin approximately 285 miles east of Boston, Massachusetts in close proximity to New England and Northeast United States energy markets. This prospect covers 720,000 acres. Canadian Superior has identified extensive basin floor fans and turbidites confined in mini-basins by mobile salt diapers. Three large prospects identified on the "Mayflower" prospect are basin floor fans and turbidites flanked up against salt diapers. These types of prospects have been successfully explored in other basins along the Atlantic margin, including offshore West Africa, Brazil and the Gulf of Mexico, and contain the potential for up to one billion barrels of oil equivalent reserves (10 Tcf of gas equivalent reserves). The "Mayflower" prospect, targeting three large deep-water structures (1,000 to 1,500 metres) identified on the property, was acquired for a Work Expenditure Bid of $41.25 million.

The "Mariner" prospect (Block #4 at the Land Sale) was acquired for a Work Expenditure Bid of $15.51 million based on proprietary seismic data acquired exclusively by Canadian Superior prior to the Land Sale. This prospect covers 101,800 acres. Seismic data interpretation confirms that the "Mariner" prospect contains a large hanging wall, rollover anticline feature analogous to the nearby Sable Island fields, of which the largest discovery to date, the Venture Field, contains an estimated 1.6 Tcf of recoverable natural gas reserves. The "Mariner" prospect is located in shallow water (less than 100 metres) in close proximity to existing Sable Island producing infrastructure immediately offsetting the 1.6 Tcf Venture Field. 3-D seismic surveys will be completed or purchased in 2002 to define specific drilling locations on our "Mariner" project, which is targeting reserves accumulations of over 1 Tcf.

The Canadian Superior Web Site at www.cansup.com contains detailed Nova Scotia Offshore maps and prospect descriptions.

2001 Strategic Asset Disposition – Waterton Area

Following a thorough review, management determined that the Corporation's non-operated Waterton properties should be sold to capitalize on attractive commodity prices. Proceeds from this disposition were redirected to exploit the Corporation's portfolio of operated, high working interest holdings in high impact core areas. The Waterton properties were sold, effective May 1, 2001, for net proceeds of approximately $18.0 million ($105,882 per producing boe/d (10:1) at the effective date of this sale). The Waterton properties contained 13.9 bcf of Proven Reserves, 16.42 bcf of Proven and Probable Reserves and 5,088 net acres of undeveloped lands. Production averaged 2.7 mmcf/d in 2000 and 2.5 mmcf/d in the period from January 1, 2001 to May 1, 2001. At the time of sale, production was approximately 1.7 mmcf/d.

Reserves Summary

2001 Gross Reserves (As at January 1, 2002)	Oil *(MSTB)*	Gas *(MMCF)*	NGLs *(MBBLS)*
Gross Proven Producing	7.0	7,699.0	166.0
Gross Proven Non-Producing Developed	1.0	9,751.0	123.0
Gross Proven Non-Producing Undeveloped	–	11,136.0	54.0
Total Gross Proven	8.0	28,586.0	343.0
Gross Probable (50% risked)	1,166.0	12,866.0	119.0
Gross Proven plus 50% Probables	1,174.0	41,452.0	462.0

Value of Reserves (10% discounted cash flow, $000's)	2001	2000
Proven plus 50% Probable	51,524	54,327
Proven	35,321	49,632

The above mentioned reserves as at January 1, 2002 have been evaluated by Chapman Petroleum Engineering Ltd. and set out in their report dated March 29, 2002.

Pricing Assumptions

(Per Chapman Petroleum Engineering Ltd.)

					ARTC Credits [5]	
	WTI [1] *($US/STB)*	Price [2] *$Cdn/STB)*	AECO Spot Gas [3] *($/MMBTU)*	NGLs Mix [4] *($/BBL)*	Rate %	Max M$
Current Year Forecast						
2002	20.00	30.37	3.61	25.00	25.0	500
Future Forecast						
2003	22.50	34.22	3.86	26.03	25.0	500
2004	23.75	36.14	4.11	26.89	25.0	500
2005	25.00	38.06	4.11	28.32	25.0	500
2006	25.75	39.20	4.23	29.17	25.0	500

(1) West Texas Intermediate quality (D2/S2) crude landed in Cushing, Oklahoma.
(2) Equivalent price for Light Sweet Crude (D2/S2) landed in Edmonton, Alberta after exchange of .650 $US/$Cdn and transportation charges of $0.40 Cdn/STB.
(3) Price paid at field delivery point.
(4) Natural Gas Liquids blended mix price assuming typical liquid composition of 40% propane, 30% butane and 30% pentanes plus.
(5) ARTC rate ranges from 75% maximum to 25% minimum. Crown royalty shelter — $2,000,000.

Estimated Net Asset Value

(Thousands, except per share)	2001	2000
Present Value Reserves [1]		
Proven discounted		
Reserves at 10%	35,321	49,632
Risked (50%) Probable		
Reserves Discounted at 10%	16,203	4,695
	51,524	54,327
Undeveloped Land		
Western Canada	3,595	4,800
Nova Scotia Offshore[2]	85,000	27,500
Seismic Data	4,600	3,400
Working Capital	1,310	8,898
East Coast Cash Work Deposits	21,115	–
Options	3,697	1,575
	170,842	100,500
Common Shares (Diluted)	53,324,874	42,127,834
Net Asset Value per Share	$3.20	$2.39

(1) Reserves values are based upon an independent engineering report dated March 29, 2002, evaluated as of January 1, 2002.

(2) Land values are based upon an independent engineering report dated January 16, 2002 evaluating offshore lands as of January 1, 2002.

(3) Includes two large seismic data sets (offshore Nova Scotia and Western Canada) and 2-D seismic shot by the Corporation on the Nova Scotia offshore area.

Undeveloped Lands

During 2001, the Corporation continued to expand its Alberta and British Columbia high working interest land holdings as well as its holdings offshore Nova Scotia. Net undeveloped acreage in Western Canada increased in 2001 by approximately 48% to 48,776 net acres. Net undeveloped acreage holdings offshore Nova Scotia increased in 2001 by approximately 843% to 933,800 net acres. The following table sets out the Corporation's undeveloped land holdings as at December 31, 2001:

Location	Gross Acres[1]	Net Acres[2]	Average Working Interest
Alberta	39,360	37,920	96%
Saskatchewan	1,440	1,440	100%
British Columbia	10,458	9,416	90%
Nova Scotia Offshore	933,800	933,800	100%
Total	985,058	982,576	99.7%

Notes:

[1] "Gross" refers to the total acres in which the Corporation has or may earn an interest.

[2] "Net" refers to the total acres in which the Corporation has an interest or may earn an interest, multiplied by the percentage working interest therein owned or to be owned by the Corporation.

Our Nova Scotia offshore acreage value has been appraised at $85 million. The appraised value of our undeveloped Western Canadian acreage is approximately $3.6 million.

Seismic

During the spring of 2001, Canadian Superior acquired 1,300 kilometres of proprietary two-dimensional (2-D) seismic data and underwrote the acquisition of an additional 500 kilometres of speculative offshore Nova Scotia data. This additional data adds to the Corporation's existing database of approximately 50,000 kilometres of seismic data for the offshore Nova Scotia area.

During the 2001 operating year, Canadian Superior purchased approximately $731,000 of new 2-D data in the Western Canada Basin. Under existing agreements the Corporation is entitled to access additional Western Canadian seismic up to a value of $5,000,000.

Capital Expenditures

A focused strategy first implemented in 2000, allowed the Corporation to aggressively pursue a balanced program of exploration, development and exploitation of its asset base by leveraging exploration plays with industry participation and implementing high rate of return exploitation projects funded primarily by non-core asset divestments.

At the end of 2001, Canadian Superior held 982,576 net acres of undeveloped land and exploration licences. During the year, the Corporation had capital expenditures of approximately $27.6 million, of which approximately $6.7 million was allocated to land acquisitions, and $20.9 million was allocated to exploration and development drilling and facilities expenditures. The following table summarizes capital expenditures made by the Corporation on acquisitions, exploration and development drilling and production facilities and other equipment for 2000 and 2001:

Capital Expenditures ($000s)	2001	2000
Land Acquisitions	**$6,732**	$497
Exploration and Development (including drilling and facilities)	**$20,928**	$6,520
	$27,660	$7,017

Joint Ventures Policy

Canadian Superior has a policy of acquiring and operating 100% of its properties, whenever possible. Certain capital cost and risk profiles do, however, warrant risk management through the formation of joint ventures. The Corporation intends to continue to enter into joint venture agreements with various operators to minimize high risk capital exposure and to maximize leverage on both its high working interest lands and the commodity price environment.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Oil and gas revenues for the year ended December 31, 2001 increased to $4,945,000 from $4,869,000 in 2000. The small increase primarily reflects the impact of the sale of Waterton and the addition of new production after mid 2001 in a softening gas pricing environment. Throughout Q1 and into Q2 commodity prices were relatively high but proceeded to decline during the remainder of the year. Over the entire year, natural gas prices showed an increase of 19% over 2000, however, oil and NGLs prices declined 23% over the same period.

Cash Flow and Income

Cash flow from operations declined $486,000 from the previous year to total $1,729,000. However, net income increased to a record level of $8,109,000, up $6,928,000 from $1,181,000 in 2000. The decline in cash flow was primarily a result of the sale of the Waterton property, increased royalties and the increased cost of staffing the Calgary and Halifax offices.

Oil and Gas Production

Oil and natural gas production for the year was down 10.4% from the previous year. This reduction resulted from an early year decline in natural gas production at the Corporation's Waterton property. The Waterton property was sold effective May 1, 2001. The Corporation successfully replaced the divested production with new production associated with its Western Canadian drilling program during the remainder of the year.

Royalties

Royalty expense for the year increased to $867,000 from $397,000 the prior year. The increase was due to the fact that a large portion of production from the Waterton property, which was disposed of effective May 1, 2001, was subject to royalty holiday or reduced royalty rates. New production is not subject to the same royalty relief.

Operating Expenses

Operating expenses for the year increased marginally and were within the anticipated range.

General and Administrative Expenses

General and administrative expenses increased substantially (60%) over the prior year. The increase can be attributed to the increased staff and other administrative costs required to open the Halifax office as a base for our east coast operations and to increase staff in the Calgary office and field to support our substantially increased Western Canadian operations.

Depletion and Amortization

Depletion and amortization expense increased from $492,000 in 2000 to $992,000 in 2001. This increase reflects the rise in the Corporation's depletion base resulting from substantial capital expenditures during the year.

Future Site Restoration

The Corporation makes provision for future site restoration based on its actual number of production and

processing facilities. The increase for the year reflects additional sites resulting from the year's capital program.

Future Income Taxes

The future income tax expense for the year (calculated at 42.5%) was $4,928,000 compared to $519,000 for the previous year.

Capital Expenditures

During 2001 Canadian Superior expended a total of $27,660,000 for capital expenditures. These expenditures include amounts spent to develop new properties to replace the Waterton assets, which were sold for total proceeds of $18,100,000. Of the total capital expenditures, approximately $20 million was spent in Western Canada, including $6.7 million of land acquisitions. The balance was expended in preparation for the exploitation of the Corporation's Nova Scotia offshore prospects.

Reserves

The Corporation's Proven reserves increased 12% during the year to 32.1 Bcfe. Proven plus Risked Probable reserves increased 70% to 57.8 Bcfe. All of these reserves are located in Western Canada.

Liquidity

In the first quarter of 2001 the Corporation closed $4.56 million in financings which had been initiated during the previous year. In the fourth quarter of 2001 Canadian Superior raised $16.5 million from a special warrant issue consisting of $11.8 million in flow through special warrants and $4.7 million in common special warrants. A prospectus for the financing was finalized in the first quarter of 2002.

The Corporation raised $18.0 million from the sale of its Waterton properties. These funds, along with a portion of proceeds from the equity financings, were used to finance the Corporation's 2001 capital program.

The Corporation has a revolving production loan facility aggregating $11,000,000.

The combination of cash on hand, credit facility capacity and anticipated cash flow provide adequate funding to complete the Corporation's planned 2002 capital program in Western Canada and on the Nova Scotia offshore.

Business Risks

Companies engaged in the oil and gas industry are exposed to a number of business risks, which can be described as operational and financial risks, many of which are outside of Canadian Superior's control. More specifically these include risks of producing oil and gas in commercial quantities, marketing the production, commodity price fluctuations and environmental risks. In order to mitigate these risks, the Corporation has an experienced base of qualified personnel, both technical and financial and maintains an insurance program that is consistent with industry standards.

ENVIRONMENTAL RESPONSIBILITY

Canadian Superior conducts its operations in Canada in a manner consistent with environmental regulations as stipulated in provincial and federal legislation. The Corporation is committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making expenditures of both a capital and expense nature to ensure full compliance with laws relating to protection of the environment. The Corporation anticipates spending sufficient funds on environmental expenditures in 2002 in order to comply in all material respects with all environmental requirements related to its field operations. The Corporation does not anticipate that such expenditures, as a percentage of cash flow, will be greater than those expected, on average, by other industry operators. The Corporation will maintain insurance coverage where available, and financially desirable, in light of risk versus cost factors.

HUMAN RESOURCES

Canadian Superior continued to add to its Western Canadian exploration and operational staff during 2001. The Corporation currently has a total of 29 full-time staff, including 6 staff members in the Halifax office. Expert consultants are retained on an as required basis.

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

Management is responsible for the preparation of the financial statements and the consistent preparation of all other financial information in this annual report. The financial statements have been prepared in accordance with generally accepted accounting principles, and the other financial information appearing throughout the annual report is presented on a basis consistent with the financial statements.

Management maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and that relevant and reliable information is produced in a timely manner.

External auditors, appointed by the shareholders, have examined the financial statements. Their report follows. The Audit Committee of the Board of Directors has reviewed the financial statements with management and the external auditors. The Board of Directors has approved the financial statements on the recommendations of the Audit Committee.

Greg S. Noval
President

Robert Pilling
Director

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Canadian Superior Energy Inc. as at December 31, 2001 and 2000 and the statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

CALGARY, Alberta
April 2, 2002

Brown Smith Owen
CHARTERED ACCOUNTANTS

BALANCE SHEET DECEMBER 31 (thousands of dollars)

Assets

	2001	2000
Current assets		
Cash and short-term investments	$ 8,190	11,575
Accounts receivable	3,532	3,684
Prepaid expenses	232	127
	11,954	15,386
Term deposits (Note 2)	21,115	–
Investments, at cost	–	230
Capital assets (Note 3)	35,519	15,620
	$68,588	31,236

Liabilities

	2001	2000
Current liabilities		
Accounts payable and accrued liabilities	$10,644	6,489
Deferred future site restoration costs	116	53
Income taxes payable	107	–
Future income taxes (Note 6)	14,824	4,344
	25,691	10,886

Shareholders' Equity

	2001	2000
Share capital (Note 4)	31,781	17,343
Retained earnings	11,116	3,007
	42,897	20,350
Contingencies and commitments (Note 10)		
Subsequent Events (Note 11)		
	$68,588	31,236

Approved by the Board

Greg S. Noval
Director

Robert Pilling
Director

STATEMENT OF EARNINGS YEARS ENDED DECEMBER 31

(thousands of dollars except per share amounts)	2001	2000
Revenue		
Oil and gas	$ 4,945	4,869
Royalties, net of royalty credit	(867)	(397)
	4,078	4,472
Expenses		
General and administrative	2,291	1,429
Production and operating	1,054	929
Depletion and amortization	992	492
Future site restoration	63	23
	4,400	2,873
Earnings (loss) from operations	(322)	1,599
Other income (Note 9)	13,499	101
Earnings before income taxes	13,177	1,700
Income taxes		
Current	140	–
Future (Note 6)	4,928	519
	5,068	519
Net earnings	$ 8,109	1,181
Earnings per share	$ 0.20	0.05
Diluted earnings per share	$ 0.19	0.05

STATEMENT OF RETAINED EARNINGS YEARS ENDED DECEMBER 31 (thousands of dollars)

	2001	2000
Retained earnings (deficit) at beginning of year	$ 3,007	(855)
Reduction of stated capital (Note 4)	–	893
Adjustment for change in accounting policy (Note 7)	–	1,788
Net earnings	8,109	1,181
Retained earnings at end of year	$11,116	3,007

STATEMENT OF CASH FLOWS YEARS ENDED DECEMBER 31

(thousands of dollars except per share amounts)	2001	2000
Cash flows from operating activities		
Net earnings	$ 8,109	1,181
Items not involving cash for operations		
Depletion and amortization	992	492
Future site restoration	63	23
Future income taxes	4,928	519
Gain on sale of oil and gas properties	(13,210)	–
Interest on unexpended exploration costs	461	–
Write-down of investments	230	–
Write-down of merger proposal costs	156	–
Cash flow from operations	1,729	2,215
Net change in non-cash working capital	4,309	2,619
	6,038	4,834
Cash flows from investing activities		
Sale of oil and gas properties	18,728	–
Prospect review recoveries	1,250	–
Merger proposal	(156)	–
Interest on unexpended exploration costs	(461)	–
Purchase of capital assets	(27,660)	(7,017)
	(8,299)	(7,017)
Cash flows from financing activities		
Issue of shares	21,229	12,725
Share issue costs	(1,238)	(573)
	19,991	12,152
Net increase in cash	17,730	9,969
Cash at beginning of year	11,575	1,606
Cash at end of year	$29,305	11,575
Cash flow from operations per share	$ 0.04	0.09
Diluted cash flow from operations per share	$ 0.04	0.09

Cash at December 31, 2001, consists of cash and short term investments of $8,190,000 and Term Deposits of $21,115,000.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2001 AND 2000
(tabular amounts in thousands except per share amounts)

Note 1 – Accounting Policies

a) Depletion and Amortization – The Corporation operates in Canadian and U.S. cost centres and follows the full-cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, costs of production equipment and overhead charges related to acquisition, exploration and development activities.

The costs are amortized using the unit-of-production method based upon the estimated proved oil and gas reserves as determined by the Corporation's petroleum engineers. Oil and natural gas reserves and production are converted into equivalent units based upon relative energy content.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

The Corporation applies a ceiling test to capitalized oil and gas property costs to ensure that such costs do not exceed the estimated future net revenues from production of proven reserves, at prices and operating costs in effect at the year end, plus the cost of unevaluated properties less management's estimate of impairment. The test also provides for estimated future administrative overhead, financing costs, future site restoration costs and income taxes.

Gains or losses resulting from dispositions of oil and gas properties are charged or credited to the cost pools. Gains or losses on the disposal of significant properties are recognized at the time of disposition.

Amortization of other equipment is provided on a diminishing balance basis at rates ranging from 20% to 100% per annum. Gains and losses from disposals are included in income.

b) Site Restoration Costs – Estimated future site restoration costs, net of expected recoveries, are provided based on the estimated production life of the properties. Actual expenditures will be charged to the accumulated provision when incurred.

c) Joint Ventures – The Corporation's exploration and development activities related to oil and gas are conducted jointly with others. The accounts reflect only the Corporation's proportionate interest in such activities.

d) Income Taxes – Income taxes are calculated using the liability method of tax accounting. Temporary differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

e) Stock Options – The Corporation has a stock option plan as described in Note 4. When stock options are issued, no compensation expense is recorded. Any consideration received on the exercise of the stock options is credited to share capital.

f) Measurement Uncertainty – The preparation of financial statements in conformity with generally accepted accounting principles requires the Corporation's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

g) Earnings per Share – The Canadian Institute of Chartered Accountants has adopted a new standard for the computation and disclosure of earnings per share, which the Corporation has retroactively adopted with all prior periods being restated. Under the new standard, the treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments.

Note 2 – Term Deposits

Under the terms of the licenses referred to in Note 10, the Corporation has assigned term certificates totalling $21,115,000. Accordingly, this amount has been classified as a non-current asset.

Note 3 – Capital Assets

	2001			2000
	Cost	Accumulated Depletion and Amortization	Net	Net
Oil and gas properties	$39,025	3,660	35,365	15,516
Other equipment	352	198	154	104
	$39,377	3,858	35,519	15,620

Future development costs related to proven undeveloped reserves of $3,896,000 have been included in the depletion base calculation at December 31, 2001.

At December 31, 2001, the Corporation has excluded $9,846,000 of oil and gas properties relating to unproved properties from costs subject to depletion. General and administrative expenses totalling $2,113,000, of which $1,141,000 pertained to the Nova Scotia offshore, that were directly related to exploration and development activities have been capitalized for the year ended December 31, 2001 (2000 – $841,000).

Under the full cost method of accounting, application of the ceiling test must be performed on a country-by-country basis. At December 31, 2001, the Corporation had a surplus on the ceiling test in its Canadian cost centre. During the year ended December 31, 2000, costs incurred with respect to the United States cost centre totalling $88,000 were charged to depletion and amortization.

The prices used in the ceiling test computation were as follows:

Natural gas (per thousand cubic feet)	$ 3.59
NGLs (per barrel)	$ 24.92

Note 4 – Share Capital

a) Authorized:

Unlimited number of common shares

Unlimited number of preferred shares

b) Voting common shares issued:

	Number	Amount
Balance, January 1, 2000	23,032	$10,798
Issued for cash on flow through share issues net of income tax benefits renounced	10,956	6,196
Issued for cash on private placement	1,595	1,435
Issued for cash on exercise of options	250	125
Reduction of stated capital	–	(893)
Share issue costs net of income tax benefits	–	(318)
Balance, December 31, 2000	35,833	17,343
Issued for cash on flow through share issues net of income tax benefits renounced	2,430	1,349
Issued for cash on private placement	1,600	2,000
Issued for cash on exercise of options	450	255
Balance, December 31, 2001	40,313	20,947

c) Special warrants issued:

	Number	Amount
Balance, January 1, 2001	–	$ –
Issued for cash:		
Flow through warrants net of income tax benefits renounced	6,917	6,761
Common warrants	3,190	4,785
Issue costs net of income tax benefits	–	(712)
Balance, December 31, 2001	10,107	10,834
Total		$31,781

d) Stock options:

The Corporation has a stock option plan for its directors, officers, employees and key consultants whereby an amount of options to a maximum of 10% of the issued and outstanding common shares may be granted subject to certain terms and conditions. Stock option vesting privileges are at the discretion of the Board. The exercise price for stock options granted is no less than the quoted market price on the grant date. An option's maximum term is ten years.

	2001		2000	
	Number of Options	Weighted Average Price	Number of Options	Weighted Average Price
Balance at beginning of year	**2,175**	**$0.75**	1,375	$0.82
Forfeited	**(80)**	**0.81**	(225)	0.82
Exercised	**(450)**	**0.57**	(250)	0.50
Granted	**2,375**	**1.00**	1,275	0.80
Balance at end of year	**4,020**	**$0.92**	2,175	$0.75

The following table summarizes information about the stock options outstanding at December 31, 2001:

Exercise Price	Number of Options	Weighted Average of Remaining Contractual Life (years)	Weighted Average Price
$0.80	1,475	3.53	0.80
0.82	1,595	8.56	0.82
0.88	150	4.29	0.88
1.20	225	9.74	1.20
1.30	275	9.32	1.30
1.50	300	9.45	1.50
$0.80 – 1.50	4,020	6.74	0.92

e) Share consolidation – Pursuant to a special resolution of the shareholders dated June 30, 2000, the Corporation, on August 28, 2000 consolidated all of its issued and outstanding common shares on a 1 for 2 basis. All share and per share amounts in the accompanying financial statements retroactively reflect this share consolidation.

f) On June 30, 2000, a special resolution was passed by shareholders to reduce the stated capital amount for common shares by $893,000, which amount was applied to the deficit.

g) During the year ended December 31, 2001, the Corporation entered into flow-through share agreements to issue 6,917,000 common shares for cash consideration of $11,759,000 and to renounce $11,759,000 of qualified expenditures.

h) During September, 2000, the Corporation entered into a flow-through share agreement to issue 1,042,000 common shares for cash consideration of $1,250,000 and to renounce $1,250,000 of qualified expenditures. During the year ended December 31, 2000, 1,042,000 shares were issued pursuant to this agreement.

i) During the year ended December 31, 2000, the Corporation entered into flow-through share agreements to issue 12,510,000 common shares for cash consideration of $12,510,000 and to renounce $12,510,000 of qualified expenditures.

j) Per share amounts – Earnings and cash flow from operations per share amounts were calculated using the weighted average number of common shares outstanding of 40,887,000 for 2001 and 24,153,000 for 2000. Diluted earnings and cash flow from operations per share were calculated using 43,217,000 and 24,153,000 shares for the years ended December 31, 2001 and 2000, respectively.

Note 5 – Related Party Transactions

a) On January 14, 2000, the Corporation's major shareholder, Canadian 88 Energy Corp. (Canadian 88) distributed its holdings of Canadian Superior Energy Inc.'s common shares to Canadian 88's shareholders of record as of that date. On March 17, 2000, the Corporation entered into an agreement with Canadian 88 that provided for separation of the administration and management of the Corporation from Canadian 88. Specifically, the Corporation and Canadian 88 agreed that no further general management and administrative services would be provided by Canadian 88 after June 30, 2000; that after June 30, 2000 the Corporation had the right to market its share of natural gas production from the Waterton Prospect area as it sees fit and all such marketing will be at its own risk and expense; that the Corporation will continue to have the right to participate in development of the Waterton Prospect area; and that the two parties would enter into an agreement called the Prize Farmout Rights Agreement with a term ending December 31, 2001 allowing the Corporation a right of first refusal to participate in the development of Canadian 88's undeveloped lands held at March 17, 2000. On August 24, 2001, the Corporation announced that it had reached a settlement with Canadian 88 in regard to all outstanding agreements and litigation. As a result of the settlement the companies no longer have any long-term contractual obligations.

b) During the year ended December 31, 2001, the Corporation paid $380,000 (2000 -$380,000) for equipment rentals at normal commercial terms to a company controlled by an officer and director of the Corporation. At December 31, 2001, amounts totalling $467,000 (2000 – $25,000) were receivable from the related company.

c) At December 31, 2001 accounts receivable includes $175,000 (2000 – nil) for shares purchased by officers.

d) The Corporation has granted to one of its directors a 0.5% gross overriding royalty on its offshore Nova Scotia Marquis licenses acquired in 2000. This interest was granted as a result of the director introducing the "Marquis Prospect" to the Corporation prior to his becoming a director.

Note 6 – Income Taxes

The net future income tax liability is comprised of:

	2001	2000
Future Tax Liabilities		
Capital assets in excess of tax values	$15,440	4,572
Future Tax Assets		
Share issue costs	(567)	(204)
Future removal and site restoration	(49)	(24)
	(616)	(228)
Net future income tax liability	$14,824	4,344

The following table reconciles income taxes calculated at the Canadian statutory rate of 42.5% with actual income taxes:

	2001	2000
Income before income taxes	$13,177	1,700
Combined federal and provincial income tax rate	42.5	44.5%
Computed income tax provision	$ 5,600	757
Increase (decrease) resulting from:		
Non-deductible Crown royalties	349	135
Other	5	3
Resource allowance	52	(343)
Alberta Royalty Tax Credit	(75)	(33)
Tax effect of statutory rate change	(312)	–
Non-taxable portion of capital gains	(691)	–
	$ 4,928	519

Note 7 – Change in Accounting Policy

Effective January 1, 2000, the Corporation adopted, retroactively without restating prior years, the liability method of accounting for income taxes as recommended by the Canadian Institute of Chartered Accountants. The Corporation adopted the recommendations by recording additional capital assets of $900,000, an increase in retained earnings of $1,788,000 and a future income tax asset of $888,000.

Note 8 – Risk Management

The carrying values of financial assets and liabilities approximate their fair value due to their demand nature or relatively short periods to maturity. A substantial portion of the Corporation's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. Purchasers of the Corporation's oil, gas and natural gas liquids are subject to an internal credit review to minimize the risk of non-payment.

At December 31, 2001, the Corporation had a revolving production loan facility aggregating $11,000,000 (2000 – $6,500,000). Advances bear interest at prime plus 0.375% on the first $5,500,000 drawn and prime plus 0.75% on any remaining balance. At December 31, 2001, the loan facility was capped at $4,400,000. Increases in the facility available are dependent upon the actual performance of the Corporation's properties as determined by the lender in its sole discretion. The next scheduled review date is June 30, 2002.

The Corporation is exposed to foreign currency fluctuations as oil and gas prices received are referenced to U.S. dollar denominated prices.

Note 9 – Other Income (Loss)

	2001	2000
Gain on sale of oil and gas properties	$13,210	–
Interest	752	101
Realized foreign currency gains	421	–
Write-down of merger proposal costs	(156)	–
Write-down of investment and notes receivable	(267)	–
Interest on unexpended exploration costs	(461)	–
	$13,499	101

Note 10 – Contingencies and Commitments

a) The Corporation has acquired four exploration licenses from the Canada – Nova Scotia Offshore Petroleum Board. These licenses are for a period of nine years in total, subject to certain requirements being met during the first five years. As a condition of the licenses, the Corporation has posted security in the amount of 25% of its work expenditure bids of $84,460,000 or $21,115,000. The deposit is refundable to the extent of approved allowable expenditures.

The Corporation has issued demand promissory notes for the above mentioned $21,115,000 to the Receiver General for Canada. These notes are secured by a Letter of Guarantee issued by the Royal Bank of Canada, which in turn is secured by Assignments of Deposit Certificates related to term deposits held by the Corporation at Alberta Treasury Branches. Under the terms of the assignments the Corporation is permitted to use their line of credit in place of the term deposits.

b) The Corporation has entered into an agreement to lease premises and equipment requiring future minimum payments totaling $1,704,000. Minimum annual payments during the next five fiscal years are as follows:

2002	$ 820,000
2003	$ 682,000
2004	$ 160,000
2005	$ 32,000
2006	$ 10,000

Note 11 – Subsequent Events

On March 4, 2002, the Corporation filed a final prospectus qualifying the distribution of 6,917,000 flow through common shares and 3,190,000 common shares. These shares were issued in exchange for special warrants sold in November and December, 2001 for cash consideration of $15,305,000, net of share issue costs.

Note 12 – Corporation Name Change

Pursuant to a special resolution of the shareholders dated June 30, 2000, the Corporation amended its articles of incorporation under Section 167(1) of the *Business Corporations Act* (Alberta) to change its name from Prize Energy Inc. to Canadian Superior Energy Inc.

CORPORATE INFORMATION

DIRECTORS

Donald W. Axford, B.Sc. Geology
Chairman of the Board
Greg Noval, B.Comm., B.A. (Econ.), LLB
President and Chief Executive Officer
Robert Pilling, B.Comm., C.G.A.
Vice President
Dale G. Blue, B.A.
Director
Charles Dallas
Director
T. J. (Jake) Harp, B.Sc. Pet. Eng., P.Geoph.
Director
Fred Purich
Director
J. Ronald Woods, B. Comm., C.F.A.
Director

OFFICERS & SENIOR MANAGEMENT

Greg Noval, B.Comm., B.A. (Econ.), LLB
President and Chief Executive Officer
Robert Pilling, B.Comm., C.G.A.
Vice President
William D. Dyment, B.Math, C.A.
Vice President, Finance
Richard Watkins
Vice President, Corporate Development
Daniel C. MacDonald, B.A. in Business Admin. (Finance)
Land Manager
Gerold Fong, B.Sc. Geophysics
Exploration Manager
Leigh Bilton
Manager, Field Operations
Paul Moller, B.Sc., Geology and Physics
Manager, Special Projects
Michael E. Coolen, P.Eng.
Director, East Coast Operations
Mark Gillis, P.Eng
Manager, East Coast Drilling

INDEPENDENT ENGINEERS

Chapman Petroleum Engineering Ltd.
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Computershare Investor Services Inc.
Calgary, Alberta & Toronto, Ontario

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Trading Symbol: SNG

SOLICITORS

McCarthy Tetrault
Calgary, Alberta

Burchell Green Hayman Parish
Halifax, Nova Scotia

Fraser Milner Casgrain
Calgary, Alberta

AUDITORS

Brown Smith Owen
Red Deer, Alberta

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TRADING SYMBOL "SNG"